



HOUSE BUDGET COMMITTEE

Democratic Caucus

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Republicans Have Fallen Silent About Social Security

OMB's Mid-Session Review of the budget released in July contains no plan to start preparing for Social Security's fiscal challenges when the Baby Boom generation begins retiring six years from now.

In its most recent budget update, the Administration claims that the budget is on the right track because OMB projects a small unified budget surplus in 2005. ***Excluding Social Security, though, the Republican economic plan shows deficits and spends the Social Security surplus every year for the next ten years and beyond.*** If one excludes Social Security from the budget numbers, as Democrats believe one should, the ten-year deficit is \$2.0 trillion. That represents more than three-fourths of Social Security's ten-year surplus that is borrowed to fund other purposes.

- ***The Administration's most recent budget projection drops its prior promises to protect and strengthen Social Security.*** Gone is the Republican commitment to last year's bipartisan agreement to protect the Social Security surplus. Gone too is last year's Republican claim that there was a danger of paying off too much debt. Now, the last line of the last page of the Mid-Session Review shows that the Administration acknowledges that the public debt — under its own policies and using its own numbers — will be higher five years from now than it is today. The budgetary resources that debt reduction might have freed up to strengthen Social Security for the long haul have disappeared.
- ***Republicans have stopped talking about their plan to privatize Social Security.*** Last December, the President's Social Security privatization commission declared that this year should be devoted to debating reform options. Now, Republicans have fallen silent about even their own proposals ever since the dramatic drop in the stock market. Nowhere in the Administration's budget documents can one find the roughly \$1 trillion needed to make the transition to such a privatized system, and nowhere is there any mention of the cuts to traditional benefits that stock market returns would supposedly replace.

- ***The Administration's budget documents have never recognized the huge and inescapable budget costs of moving to a privatized system.*** Before, the Administration might have claimed that the surplus could be used to pay the \$1 trillion transition to private accounts. Now, though, the surplus is gone. In fact, since February 2001, projected interest on the public debt for 2002-11 has shot up by \$1.15 trillion — by itself wiping out enough money to shore up Social Security for years to come.
- ***Private stock market accounts do not offer a painless solution to Social Security's impending fiscal challenges.*** The 45 percent decline of the S&P 500 since September 2000 has shown that stock prices do not rise inexorably. Recent developments have made quite vivid the way that a market slump can overthrow years of planning for near-retirees — even if their nest-eggs have earned a positive rate of return since first invested years ago. In fact, the sudden drop in the value of private savings recently is a good illustration why a government-guaranteed defined benefit program should be part of a diversified approach to retirement planning.
- ***The Administration's implausible budget projections understate the degree to which its policies tap the Social Security Trust Fund surplus.*** OMB's overly optimistic budget projection, which shows only a \$175 billion deterioration of the ten-year outlook since February, is not credible. The projection is based on a variety of rosy assumptions, most notably that tax receipts will rebound strongly and show above-average growth. The Administration acknowledges that the stock market's decline in 2001 caused the sharp drop in revenues this year when 2001 taxes were filed. But, OMB ignores the fact that the drop in the market this year will similarly hurt tax receipts next year or thereafter. If, instead, OMB had reported more realistic budget numbers, the invasion of the Social Security Trust Fund surplus would be even greater than the \$2.0 trillion the Administration admits.
- ***Republicans must not walk away from the nation's long-run fiscal challenges.*** Republicans promised that we could have it all: \$2 trillion in tax cuts, more money for defense, funding for domestic priorities like education and prescription drugs, more than enough to pay off the public debt — and still have money left over to strengthen Social Security for the long term. Those promises have been broken. It is past time for Republicans to join with Democrats to put the budget back on a path that will strengthen Social Security.